

**FACTORS INFLUENCING FINANCIAL PERFORMANCE OF ANIMAL FEEDS
MANUFACTURING COMPANIES IN SELECTED COUNTIES IN KENYA**

A CASE OF KIAMBU AND NAIROBI COUNTIES

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ACCOUNTING) IN THE SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT AT
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DECLARATION

Student declaration

I declare that this Dissertation is my original work and that it has never been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author is duly acknowledged.

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Supervisor Declaration

I do hereby confirm that I have examined the Dissertation of **Timothy Njonjo Nyambura** and have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed

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ABSTRACT

The financial performance of some animal feeds manufacturing companies have been questioned because of the way they are closing their operations and some companies have been declared under receivership for various reasons. The main objective of the study was to determine the factors influencing the financial performance of animal feeds manufacturing companies' in Kiambu and Nairobi Counties. The specific objectives were to determine how the Manufacturing expenses, loan management, working capital, and demand influence the financial performance of the animal feeds manufacturing companies Kiambu and Nairobi Counties. The aim of this Study was to help to determine those factors which were influencing the financial performance of animal feeds manufacturing companies and leading some companies to close the operations. The target population consisted of Sixty one companies and census method was used to collect the data for five years from secondary sources. The Association for the animal feeds manufacturers in Kenya (AKEFEMA) and Kenya National bureau of statistics (KNBS) assisted in providing the secondary data which assisted in providing the final results. The data was analyzed through panel data analysis and STATA software was used to get the results and the interpretations are provided. The data is presented through the use of tables, graphs and figures. The study evaluated the dependent variable and the independent variables in order to find if there is any relationship which exist or not using the STATA software results. The findings from this study indicated that there is a significant relationship between the demand for animal feeds and the financial performance. The findings from this study also indicated that there is no significant relationship between the manufacturing expenses, loan management, working capital for animal feeds manufacturing companies and the financial performance.

Key words; Animal feeds manufacturing companies, financial performance

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DEDICATION

I dedicate this project report to God Almighty for His infinite mercy that he has granted me through my studies and my life and also to my Mother Lucy Nyambura Njonjo and my beloved wife Jackline Ngoiri who has been a source of my inspiration during my studies.

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ACRONYMS AND ABBREVIATIONS

AKEFEMA Association of Kenya feeds Manufacturers

ATM Automated Teller Machine

COMESA Common Markets for Eastern and Southern Africa

KCB Kenya commercial bank

KEBS Kenya Bureau of standards

KNBS Kenya National Bureau of statistics

KIPI Kenya Industrial Property Institute

KRA Kenya Revenue Authority

MM Modigliani Miller

NEMA National Environmental Management Authority

NHIF National Hospital Insurance fund

NSSF National Social Security Fund

TSS Tahir Sheikh Said

VIF Variance Inflation Factor

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CHAPTER ONE:

INTRODUCTION

1.1 Introduction

This chapter discusses about the factors influencing the financial performance of animal feeds manufacturing companies in Kiambu and Nairobi Counties. The specific objectives were to assess how the Manufacturing expenses, loan management, working capital and demand influence the financial performance of the animal feeds manufacturing companies. The chapter also outlines the research questions which act as a guiding tool of the researcher, the statement of the problem and finally the significance of the study to various stakeholders.

1.2 Background of the Study

Animal feeds manufacturers provide very important role in improving the production of animal's products and improving the quality of animal health. The milk production is increased and the meat quality is improved when good quality feeds were used. The eggs production is increased because of usage of good quality feeds. The animal feeds manufacturing companies also help in poverty reduction because of providing the employment opportunities for the community. (Haan, et al., 2001).

There are some animal feeds manufacturing companies which are closing down because of scarcity of raw materials while others are opening new companies and this have led to the conduct of this study. The firms which were closing down because of problems related to financial performance which include the loan management. The stakeholders theory of the firm performance have shown that the financial decisions of the management are very important to be considered by

each organisation like the loan and if not properly addressed they can lead to the closure of the firm like the recent supplier and manufacturer of animal feeds TSS grain millers (Ngige, 2016).

The organisational structure of the firm is very important to define so that the organisation can attain its objective. The organisational structure shows the hierarchy of the responsibilities from the top management to the lower level management. Animal feeds manufactures have got the different organisational structure and most of them were headed by the board of directors who delegate the mission statement to the Management and then to the other employees (Noreen, Brewer, & Garrison, 2011).

The Ministry of Agriculture further explains that the managers and the employees are competent in order to attain the goals of the organisation. Integrity and credibility were observed in order to ensure the objectives of the organisation were obtained, there were other professional ethics which depend from one organisation to another. The ministry of Agriculture has provided the information that some companies of animal feeds manufacturing have been closing down when there is scarcity of agricultural products, which led to the increase in manufacturing expenses and this have led to the conduct of this study. The financial performance of animal feeds is also influenced by the demand for animal feeds which is also one of the independent variable in this study and according to the stakeholders theory, value and the firm performance the financial decisions include the decisions regarding the inventory which have influence on the financial performance of the firm (Ministry of Agriculture, 2014).

The animal feeds manufacturers purchase their raw materials from the suppliers who were authorised by the East African community's management to import the raw materials for example the wheat grains. The suppliers must adhere to the laid down procedures and failure to do so the import licences were withdrawn. Some suppliers were also manufacturers of animal feeds and

registered members of AKEFEMA. The suppliers provide a very important role of sourcing the raw materials from different sources and delivering them to the manufacturers and at the same time ensuring they don't take advantage of the situation by increasing the prices of animal feeds. The registered suppliers were also allowed to trade by COMESA in the countries which were member states of COMESA. Some of the registered suppliers in East African community include Mombasa maize millers Nairobi, TSS grain millers Mombasa, Uzuri foods ltd Nairobi (Bageine, 2013). One of the major suppliers of animal feeds is TSS grain millers who were the manufactures and also suppliers of the animal feeds raw materials (Ngige, 2016).

The animal feeds manufacturers have been closing down in Nakuru County because of increase in manufacturing expenses and also the cost of raw materials in the year 2014 according to the study which was carried. The cost of transportation has increased due to inflation and other factors and this is one of the costs in manufacturing expenses. The farmers have resulted to the use of cheap animal feeds and production of their animal feeds during the year 2014 as the study was conducted. The increase in manufacturing expenses leading to closure of some companies in Nakuru town and this have also lead to the conduct of this study in the selected counties (Kamau, 2015). According to stakeholder's theory, value and firm performance the firm performance depends with the decisions of the management. The loan management if not properly administered can led to the closure of the company like the recent company which is under receivership the TSS grain millers which closed down (Harrison & Wicks, 2013).

The AKEFEMA Association registers the Animal feeds manufacturers in Kenya and issues certificates upon completion of payments for the subscription yearly. According to the trade-off theory the firm has to make several decisions for the management of marginal revenue and marginal costs. The manufacturing expenses are the manufacturing costs which should be lower

than the marginal revenue (Orina, 2011). The management of demand which is related to financing decisions and marginal revenue have led to the closure of some companies because during the dry season there is scarcity of raw materials and demand of animal feeds and this has also led to the conduct of this study (Akefema, 2016).

The financial performance is the process of measuring the results of a firm's policies and operations in monetary terms. The financial performance ensures the objectives of the organisations were fully met and the organisation is assumed to continue in operations in future. The Financial performance can be used to compare different firms in the same industry (McWilliams & Siegel, 2000).

1.3 Animal feeds manufacturing companies in Kiambu and Nairobi Counties.

The animal feeds manufacturing companies were formed with the objective of manufacturing high quality animal feeds and distributing the animal feeds to the farmers at good prices. The companies ensures that the best quality of animal feeds is maintained to get higher returns both in business and also to the farmers who get the best quality of their produce. The manufacturing companies also ensures the animal feeds were not harmful to the animals (Akefema, 2016)

The animal feeds manufacturing companies were registered by various government organisations, which include Attorney general Office which issues certificate of registration of a company. The registration for the payment of taxes is done by KRA, online registration of Pin and also vat. The trade licence which were issued by the Local Authority where the company is located. The registration of import licence for animal feeds raw materials is done by KRA, Customs and Excise Department (Ministry of Livestock, 2008)

The registration of NHIF and NSSF for the employees working in animal feeds manufacturing companies done by NHIF and NSSF which were Governmental organisations. The licencing for milling of Maize and Grains is done by National Cereals Board (Mbithi & Mainga, 2006).The registration of trademark is done by KIPI and KBS registers the standardization mark for the quality product (Mbithi & Mainga, 2006).

Pwani feeds is a limited liability company manufacturing animal feeds for cattle, pigs, and Poultry in Kiambu County. The company is a medium sized and was started by one directors and has been in operation from 1995 to date. The company is run by the Board of Directors and the Top management and has over 300 employees who help in achievement of the organisation goals. The main objective of Pwani feeds was manufacture the high quality animal feeds for the best production of animal products in Kenya. The company has been purchasing raw materials from local suppliers and also from the importers of other raw materials. Pwani feeds was started in Mombasa and then another manufacturing plant was opened in Thika to expand the business and to bring the services closer to the farmers. The quality of the animal feeds is also tested by the KEBS to ensure that it is fit for animal consumption (Macharia, 2014).

The animal feeds manufacturing companies in Kiambu County and Nairobi Counties were Sixty one registered by AKEFEMA, which is a registration body for all the animal feeds manufacturers in Kenya. The association is run by the members who appoints the board of directors every year during the annual general meeting. The AKEFEMA further provide very useful information to the farmers on how to use the animal feeds and supplements and how to deal with common diseases. The companies deliver their products directly to the farmers and are located closer to the farmers and they also offer credit facilities to the farmers. They also publish the list

of manufacturers in different regions in Kenya and they help to know the areas which have no animal feeds manufacturers (Akefema, 2016).

The majority of animal feeds manufacturers do not have the laboratory for ensuring the good quality of Animal feeds is manufactured and distributed to the farmers since a study conducted by the Government Agency and KEBS found the feeds with high level of aflatoxin which is poisonous and the animal feeds were destroyed with the government orders and the suppliers of those feeds were closed down (Ministry of Livestock, 2008).

The manufacturing companies involve the employees in decision making especially the financial performance decisions because their contribution is of great importance in attaining the objectives of the organisation. The employees also help to ensure there are varieties of animal feeds produced in the markets and upgrading the existing brands (Bryson, 1999).

1.4 Problem Statement

The Manufacturing companies in Kenya have been closing down for reasons which were not clear but related to financial performance. There have been key factors influencing the financial performance of the animal feeds manufacturing companies leading to the closure or companies placed in receivership like the recent major supplier and manufacturer of animal feeds, the TSS grain millers limited. The TSS grain millers is a group of companies and also manufacturer of animal feeds. The TSS was unable to clear a loan of One Billion from KCB. The TSS grain millers have Seven billion in total of the loans borrowed from other banking institutions including the one billion from KCB (Ngige, 2016).

The TSS grain millers is one of the companies legalized to import the grains, cereals and animal feeds raw materials and being declared in the receivership showed there was a problem in

the animal feeds manufacturing industry and also in the milling industry .The company is legalized and listed as an importer by East African customs management and Kenya revenue Authority. The TSS grain millers a manufacturing company was taken over by KCB and the company's Assets will be auctioned to recover the debts. The manufacturing company did not have a debt in the year 2009 but from 2010 when the Director and the owner TSS stepped down because of health problems the loans taken by the children of TSS and accumulated interest is over 8 billion yet the manufacturing company was well and financially sound before 2010 and the case is still pending in court. The loan management and also the working capital problems as demonstrated by TSS grain millers are some of the reasons which have led to the conduct of this study (Kariuki, 2017)

The animal feeds manufacturers in Nakuru town have been closing down because of problems associated with financial performance. The companies have been struggling over the years and to protect further future losses and they close down. There has been increase in manufacturing expenses like the transport expenses and also the problem of demand management since during the dry season there is scarcity of raw materials like cereals, these are some of the reasons which have led to the conduct of this study.(Kamau, 2015)

The financial performance is not well understood and is very wide and this has led to the need of this study. There was a research which was carried out for both Kiambu and Nyeri Counties for the factors affecting the size of animal feeds manufacturing firms and there was an evidence that some of manufacturing companies were closing down because of increase in manufacturing expenses and other factors like high demand when there was scarcity of raw materials during the dry season and these factors have led to the conduct of this study (Munyori, Ofunya, & Ithinji, 2014).

The main aim of this study was to demonstrate why some manufacturing companies were closing down their operations yet their financial performance is good and they were making profit in their enterprises and their asset base was growing day by day but there were others which were opening new branches day by day and others doing very well.

1.5 Objectives of the Study

The general objective of this study was determine the factors influencing financial performance of animal feeds manufacturing companies in Kiambu and Nairobi Counties.

1.5.1 Specific Objectives.

The research intends to address the following specific objectives:

1. To assess the influence of manufacturing expenses on the financial performance of animal feeds manufacturing companies in both Kiambu and Nairobi Counties.
2. To assess the influence of loan management on the financial performance of animal feeds manufacturing companies in both Kiambu and Nairobi Counties.
3. To assess the influence of working capital on the financial performance of animal feeds manufacturing companies in both Kiambu and Nairobi Counties.
4. To assess the influence of demand on the financial performance of animal feeds manufacturing companies in both Kiambu and Nairobi Counties.

1.6 Research Questions

The Research intends to address the following research questions:

1. How does manufacturing expenses influence the financial performance of animal feeds in both Kiambu and Nairobi Counties?

2. How does loan management influence the financial performance of animal feeds in both Kiambu and Nairobi Counties?
3. How does working capital influence the financial performance of animal feeds in both Kiambu and Nairobi Counties?
4. How does demand influence the financial performance of animal feeds in both Kiambu and Nairobi Counties?

1.7 Significance of the Study

The importance of this study was contribute to the changes and mechanisms which when effected will improve the manufacturing companies and the society as a whole.

1.7.1 Investors/ Shareholders

Shareholders of these manufacturing companies can use the findings of this study to make investment decisions depending on their personal interest and perceptions towards risk and returns. They can also understand the factors influencing the financial performance of animal feeds manufacturing companies in both Kiambu county and Nairobi County.

1.7.2 The Government of Kenya

The findings of this study is of importance to the government department that regulates the financial performance and the running of these animal feeds manufacturing companies and to put in place measures in order to establish on how to find funds to boost these companies and also assist the farmers.

1.7.3 The Management

The management of the Animal feeds manufacturing companies is able to use the findings of this study to be able to set up strategies which can enable the companies to achieve their vision and targets. It will also assist in establishing the most efficient management style to apply in order to be able to achieve set goals.

1.7.4 The Academia

The study can help the Scholars to determine how Manufacturing expenses, loan management, working capital and demand influence the financial performance of Animal feeds manufacturing companies.

1.8 Scope of the Study

The study has focused on the factors influencing the financial performance of animal feeds manufacturing companies in Kiambu County and Nairobi County. It is conducted in Sixty one Animal feeds manufacturing companies in Kiambu County and Nairobi County. The researcher conducted a census method because the data is small and accurate results were necessary for the Study. The time was minimal but the researcher worked extra hours to get the accurate results of the study. Data was collected through the secondary sources of other published reports, books and journals from other scholars and financial statements. The data collection took four weeks and the other various activities were shown in the schedule of the work in appendix 3.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

The chapter attempts to review the areas and various literature related to factors influencing the Manufacturing expenses, loan management, working capital and demand in relation to financial performance of animal feeds manufacturing companies in Kiambu and Nairobi counties. There has been increased cost of animal feeds in the Kenyan market as a research was conducted, published by and recommended that the prices of animal feeds should be lowered but the problem was not solved (Bett, Njehia, & Njoroge, 2015).

Chania animal feeds has been struggling with poor roads service network in Kiambu county, where they claim there has been an increase in production costs and increase in raw materials recently but the government have not yet solved that problem, the raw materials which were imported have also increased in prices leading to the increase in the final product (Nduati, 2011).

2.2 Review of Theoretical Literature

There have been past studies and the theories which were conducted by other researchers with regard to the financial performance of manufacturing companies. Under this section findings from the related studies were presented, discussed and criticized. The purpose of this theoretical review was to enable the researcher identify the research gaps regarding the financial performance of the animal feeds manufacturing companies. The theories which support the financial performance of animal feeds include the Stakeholders theory, value and the firm performance, Trade-off theory of

capital structure and taxes and the Pecking order theory. There were other theories supporting this Research but the above theories were clearly discussed and criticised in this research study.

2.2.1 Stakeholders theory, value, and firm performance

The shareholders have the preference of particular objective which should be met in order to achieve the objectives of the organisation for example the maximisation of profit. The management of the organisation who are the Agents have their preference of their objectives like the increase in salaries and allowances and to avoid conflicts the preferences of the Shareholders are given first priority by the Agents but it should be within the objectives and the goals of the organisation and should not be exploited. The stakeholders include the shareholders and other external parties who have interest with the organisation like the lenders of the firm and the guarantors (Harrison & Wicks, 2013)

All the stakeholders are customers and they have decision they need to make from the utility they make from the firm and needs to measure it and gives a value for comparison purposes. The firms performance can be defined as the total value created by the firm through its activities which is the sum of the utility created for each of the firm's legitimate stakeholders. The stakeholders brings the conflict in the organisation due to their interests and if not solved they can affect the operations and the objectives of the firm. The loan management should be done according to the loan agreement and the purpose for which it was agreed should be used and in case of failure there are consequences (Harrison & Wicks, 2013)

The firm performance depends with the decisions of the management regarding the inventory management. The firm makes the decision of controlling the stocks with the signals it receives in the market, when there is scarcity of stocks of finished goods the firm will increase

the price and produce more of the product to avoid operating without stocks. The firm can also increase the price of the commodity according to the demand and the supply of the commodity. The management expenses increases as the product increases for example the transport costs increases as the more sales are made. This study needs to show if there is statistical relationship between the independent variables and the dependent variable the financial performance (Kishore, 2005)

This study has shown that the independent variables which is influencing the dependent variable that is the financial performance include the demand for animal feeds as measured by inventory turnover ratio and had been shown in the conceptual framework. The other independent variables don't have much influence on the financial performance of the firm. The theory of the stakeholders, value and firm performance can be applied to explain whether there is any linear relationship between the Independent variables and the dependent variable.

2.2.2 Trade off theory of capital structure and taxes

The Trade-off theory shows the importance of the financing decisions made by the management of the organisation and how they can affect the firms in the future. The trade-off theory shows how firms have to make several decisions for the marginal revenue and marginal costs. The marginal revenue has be greater than marginal cost for the firm to make profit. This study involved the Independent variable manufacturing expenses which is influencing the financial performance of animal feeds manufacturing companies and needs to be proved statistically whether there is influence or otherwise (Orina, 2011).

The capital structure decisions are very important to consider while making the financial decisions whether to take the loans internally or externally through the external debts. The animal

feeds manufacturing companies have been taking the external debt financing and the loan management have been one of their specific objectives which should be achieved and failure to achieve it will lead the organisation into losses. The loan management have led to the closure of the TSS grain millers which is a manufacturing company of animal feeds and also the supplier of animal feeds raw materials in Kenya (Githire & Muturi, 2015)

The theory of the capital structure theory was first demonstrated in 1958 by the founders of the MM or the Modigliani and Miller theory of capital structure which shows the importance of considering the financing decisions whether it is through Internal financing or External financing through debt. The capital structure includes the Equity and the Debt capital, some scholars have shown that they are irrelevant and homogeneous in making the financial decisions. The company financial structure doesn't influence the company stock price and therefore the capital structure is irrelevant to a company stock price (Modigliani & Miller, 1958)

The MM proposition one shows that there are no transactions costs and no taxes. There are no effects of debts on companies' earnings before taxes. There is symmetry of market information meaning that the company and the investors have the same information. The above study shows there is a linear relationship between the financial performance as measured by Earnings ratio and the Independent variables like inventory management and the loan management meaning that both the management and the investors are aware of the market structure whether it's good or otherwise and the ratios shows (Modigliani & Miller, 1958).

The Corporate borrowing decisions are determined by the management of the organisation and the most necessary needs are given priority according to the budgeted needs. Some of the corporate decisions include the financing through the debt capital instead of internal financing.

The organisation should ensure that the loan management is in control to prevent future problems with the lenders of debt. This research study have shown that there is a relationship between the financial performance and the loan management and the loan management should be considered in making financing decisions (Myers, 1977).

The loan management should be done according to the objectives of the organisation and should be used according to the budgeted cost and failure to abide to the objective of the loan will lead to the misuse of funds and loss to the organisation which can also lead to the closure of the firm. When a firm is unable to pay its loans then it risks to the closure of the organisation. This study has demonstrated that the TSS grain millers was put under receivership because it was not able to pay its loans granted by KCB. According to MM theory the capital structure does not influence the value of the firm and also the financial performance of the firm but there are other factors which are influencing the financial performance of the firm like the demand for animal feeds as measured by inventory management and this has been statistically tested and the p value is less than 0.05 (Pandey, 2005).

2.2.3 Pecking order theory

The pecking order theory assumes there is no target capital structure. The firm chooses the capital according to the following preference order internal finance, debt and equity. There is information asymmetry between the internal parties who are the managers and the external parties who are investors and other interested parties which influences the decisions of the management. The financial performance of animal feeds manufacturing companies as measured by earnings yield ratio is influenced by the independent variables which include manufacturing expenses, loan management, working capital and the inventory management and there is a linear relationship between the independent variables and the dependent variable (Kishore, 2005)

The animal feeds manufacturing companies have been choosing their capital structure according to their preference and there is no assumed target capital structure they should maintain. According to this study most of the companies have loans and they are able to manage and control the loan management system but some companies have are not able to manage the loans and they are in receivership or have closed down. Some animal feeds manufacturing companies have been closing down in Nakuru County for reasons which are not clear and this has also lead to the research of this study (Kamau, 2015).

There were some animal feeds which were closing down for various reasons but there were others which were expanding their business well and others opening the animal feeds manufacturing companies both in Kenya and other areas of the East Africa. The reasons for the closure of some animal feeds manufactures were not well known since they were making profit and some of them were big companies thus the need of this study (Ministry of Agriculture, 2014).

The Manufacturing companies were run by professional managers who were mostly qualified in Management and their roles keeps on changing as the technology and working capital changes. The managers ensures the goals and interests of the Shareholders were attained at all times and ensure there is no conflict of interest (Orina, 2011). The managers should ensure the organisation attain their objectives of manufacturing quality animal feeds and deliver them to the customers to ensure high production of animal products, the managers should also ensure the goals of the Shareholders were attained and that dividends were paid promptly to the Shareholders (Nduati, 2011).

The classical model for the management as demonstrated by the founders of management theory Henry fayol and Taylor, (1845) is still applicable in the modern organisation. The

management or authority is recognised and given precedent on any objective which is set and is followed in all units of management to attain the set goals. The growth of the firm is given much attention since the capital and the expenditure has to increase as the output increases. The data collected for the purpose of this study shows that the capital structure of the Animal feeds manufacturing company keeps on changing from one time period to the other (Philips, 2013).

The financial performance for a firm should be fully checked and compared with other factors to get the general outcome. The sales of an organisation can increase and the gross profit increase but the Net profit could decrease and lead to losses as seen in the study conducted by the researcher. The importance of this Pecking order theory to the current study is that the capital structure decisions do not affect the financial performance of the firm but other major reasons affect the financial performance of the firm like the inventory management which is also an independent variable (Rejc, 2004).

2.3 Empirical review

The factors influencing the financial performance of animal feeds manufacturers were closely studied to see if there is any relationship with the financial performance of animal feeds manufacturers in Kiambu and Nairobi Counties. The independent Variables were well defined and explained in the empirical review according to the following.

2.3.1 Manufacturing expenses and financial performance

Manufacturing expenses were defined as the costs incurred in the manufacturing process which include direct material, direct labour and manufacturing overheads (Simon, 1964). The direct costs which were incurred for the purpose of production of a commodity and were directly related to the product for example direct labour incurred for the offloading of raw materials in

manufacturing company. The importance of cost accountant was to distinguish between direct costs and Manufacturing expenses which were other costs in the production of a commodity and to ensure all the costs of the manufacturing a product were indicated and shown in the cost statement (Simon, 1964).

The demand for animal products like eggs have been increasing and also the prices of grains and cereals which were the raw materials of animal feeds were also increasing, and it's not clear whether this has led to the problems to manage the increase in price (Bett, Njehia, & Njoroge, 2015). There is increased costs of animal feeds in recent years which have been attributed to the changes in demand conditions and increase in the population of animals consuming the animal feeds (Said & Mbugua, 1984).

The Manufacturing expenses is very important to be considered because it affects the pricing of the product and for any manufacturing organisation to get profit the cost of production or the manufacturing cost per commodity should be lower than the selling price per commodity (Simon, 1964). The profit maximisation theory is important to consider when making the pricing decisions since the continued losses were the leading factors of the closure of the firms (Howard, 1920).

The Manufacturing expenses should include all the costs which were used during a specified period of time in order to evaluate the profitability of the firm during the specified period of time, according to (Nduati, 2011). Manufacturing expenses were measured through the expenses ratio and a lower ratio means more profitability and a higher ratio means less profitability (Howard, 1920).

2.3.2 Loan management and financial performance

A loan is defined as the amount of money which is borrowed by an individual or an organisation for a defined or undefined purpose with the aim of using the money and returning it with interest. Interest rate is defined as a rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal. Interest rates often change as a result of inflation and the government policies (Parekh, 1988).

Loan management were the factors dealing with the loans and ensuring the loans were paid promptly and in time (Mann, 1976). The management in every organisation have the duty to ensure any management techniques they use will benefit the organisation and ensure the organisational goals were meet. The management technique can be directly or indirectly applied in the organisation (Johnson & Duberley, 2000).

The farmers were given credit facilities so that they can clear the balances when they harvest their produce and they have money to pay for their credit facilities (Mann, 1976). The ability to pay their credit in time has lead to the lender to lend more in anticipation to get the payments after the haverst which is mostly guwerenteed by the farmers.This applies to majority of the manufacturing companies of animal feeds as well as other organisations which were dealing with the farmers(Govereh, Jayne, & Nyoro, 1999).The loan management is very important because failure to make controls will lead the organisation to have large loans and eventually the organisation will not be able to pay loans leading to its closure.(Parekh, 1988)

2.3.3 Working capital and financial performance

There have been changes in working capital influencing the financial performance of animal feeds manufacturers in Kiambu county and Nairobi county. The introduction of computers in Kenya has brought the significant positive influences in the financial performance of the manufacturing companies since the data of the organisation can be processed using little time compared to manual system. The filling system has changed much since the manufacturing companies use the computer system to save data and information which is very economical in terms of space and speed. The major system of filling in most manufacturing companies is the use of Computer system (Pradeep, 2003).

The computer working capital has influenced the relationship and understandings between the management and the shareholders to be good and strong because the main goals of the Shareholders were achieved very efficiently in good time, speed and a high level of accuracy by the management. The basic important interest of the shareholders is the payments of dividends and increase of the same but the management can pay the dividends in very short period of time after declaration of the dividends and making the Shareholders satisfied (Eisenhardt, 1989) .

The mobile banking has influenced the changes in the financial performance of animal feed manufacturers by positive and negative ways. The positive changes in working capital development is the payment of animal feed and loans advanced using the mobile banking services and also the debit and credit cards which is very fast and efficient and reliable method of making payments this is an example of financial innovation(Baicu, 2011).Working capital is changing day by day because of new inventions and upgrading of the working capital and the organization has to move with working capital and failure to do that it is left behind and sometimes leading to the closure of the firm (Pradeep, 2003) .

2.3.4 Demand and financial performance

There have been changes in demand influencing financial performance of animal feeds manufacturers in Kiambu County and Nairobi County. The raw materials of animal feeds manufacturers were agricultural produce like maize, wheat which were affected by the weather conditions which include the rainy seasons and the dry seasons. During the dry seasons there is scarcity of the raw materials and their prices increase, the dry season is a change in climate and sometimes if it is prolonged then it results to drought (Ministry of Agriculture, 2014).

There is general increase in prices of agricultural products in the recent years like maize, wheat and related products like milk, eggs etc. The animal feeds were also affected and also have increased in prices as other agricultural products (Saleemi, 1990.) There exist a demand problem when there is low supply and also when there is high supply of the commodity and this changes the prices of the commodities. The management of the organisation has a duty to ensure the demand and supply is controlled, the management should also ensure the prices reflect the correct position of the costs for the organisation to make profit. The revenue should be higher than the costs of the product (Shepherd & Vetta, 2007)

There is high demand for food grains in other areas of the world and the firms dealings with the grains have the duty to deal with the demand problems and should ensure they manage properly the demand of grains to prevent shortages (Chand, 2007)

2.4 Summary of Research Gaps and Conclusions.

From the various sources, some of the writers have shown clearly how some of these factors have been influencing the financial performance of animal feeds manufacturers. For instance the TSS grain millers which was closed down and is still under receivership have shown how the

following factors have influenced the financial performance of the animal feeds manufacturing companies;

Manufacturing expenses and financial performance: The researchers have not given an optimal manufacturing expenses which the company should incur in order to get the benefit or the profit. The researchers have not yet given the reasons which lead to the increase in manufacturing expenses of only one company in the same industry while the competitors were lowering the Manufacturing expenses. According to the stakeholder's theory value and firm performance the capital structure does not influence the value of the firm but the management decisions could influence the value of the firm as shown in the theories of this study. Some of the management decisions include the manufacturing expenses decisions which can influence the value of the firm.

Loan management and financial performance: Support for loan management has been outlined. However, there is no clear written evidence showing the most tolerable loan management standards a firm should maintain in order to achieve higher financial performance and developments. These writers haven't also shown how defaults in loan can affect the financial performance and development of a manufacturing companies. Some of these writers have failed to show the relationship of this dependent variable to the independent variables. Though some of the writers have shown some of the impacts of these independent variables on the dependent variable, they have not been able to depict the true relationship and the nature of the relationship.

Working capital and financial performance: The major concern is that no sufficient explanation has been written to show how a company should deal with working capital and adapt negative or positive factors to get good and beneficial financial performance and development. A good example is Computer filling which replaced the manual filing of files in the manufacturing

companies which is faster and efficient. According to the stakeholder's theory, value and firm performance the capital structure does not influence the value of the firm but the management decisions could influence the value of the firm as shown in the theories of this study. Some of the management decisions include the management of working capital decisions which can influence the value of the firm.

Demand and financial performance: The researchers have not come up with the reasons why the demand affect the manufacturing companies who have good management of stock and also warehouse to keep their stock at all times of the year yet during the dry season there is scarcity and during the rainy season there is wastage because of excess stock of raw materials and the finished goods. Thus this study is aimed at filling these gaps so as to clearly determine the factors influencing the financial performance of animal feeds manufacturing companies in Kiambu County and Nairobi County.

From the above review of various literatures, the financial performance of animal feeds manufacturing companies is being influenced by Manufacturing expenses, loan management, working capital, demand and these factors play a major role in the financial performance of manufacturing companies.

The animal feeds manufacturing companies have increased the production capacity but there were other manufacturing companies which have closed down their operations in Kenya for reasons which were not clear but related to financial performance. There were other animal feeds manufacturing companies which were doing well and opening other branches in Kenya but the interest of this research was to find out the reasons why some companies were closing down their operations in Kenya (Kenya National Bureau of statistics, 2016).

2.5 Conceptual Framework

Figure 2.1: Conceptual Framework

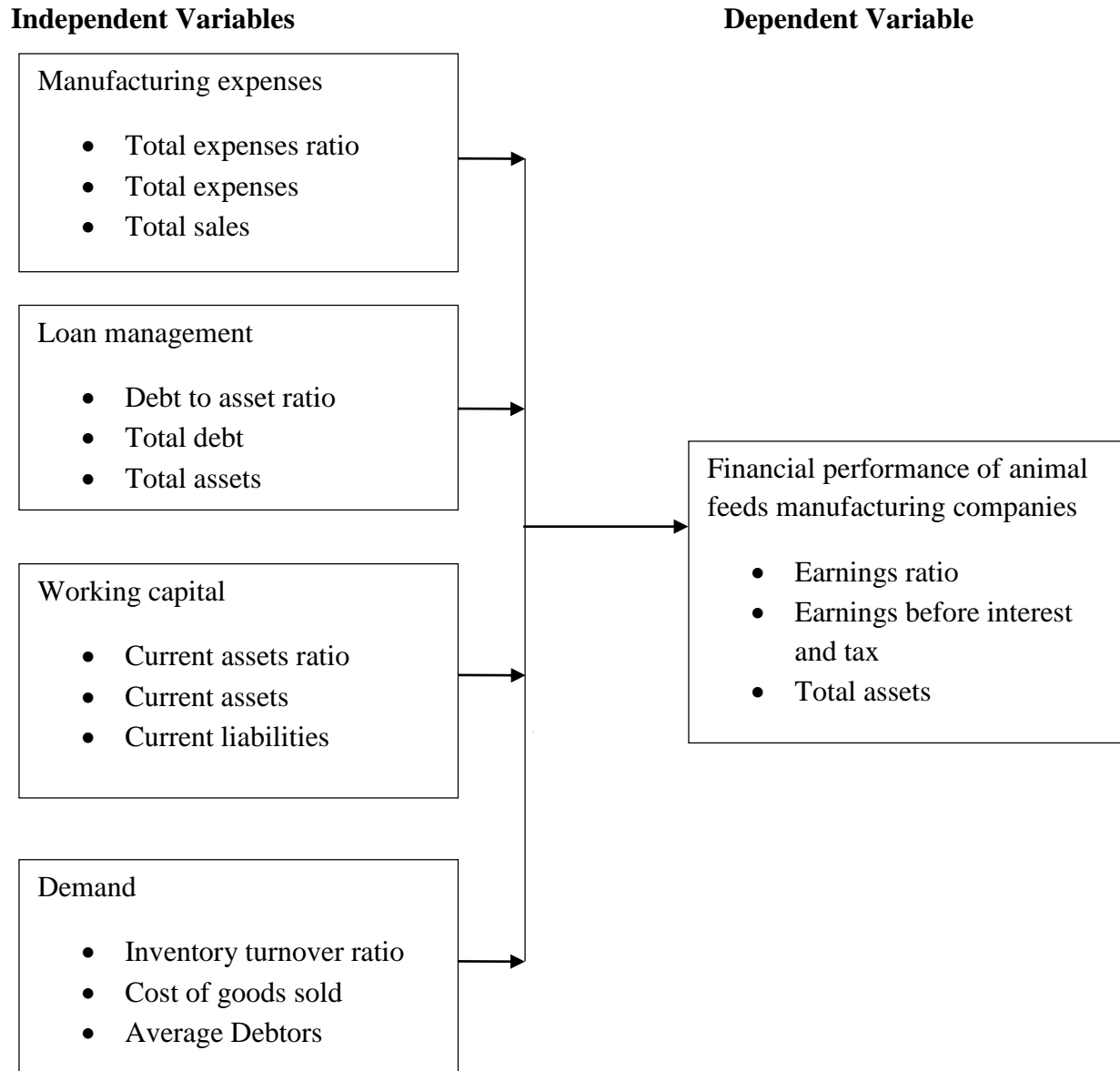


Figure 1: Conceptual Framework

Source: Author (2017)

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

The chapter seeks to explain the research method that is used in conducting the study. It includes the research design, population of study or target population, sample design and procedures, data collection methods and data analysis procedures to be applied. The data analysis method used in this study is panel data analysis using STATA software results.

3.2 Research Methodology

The research design used is descriptive since the researcher aim was to identify the factors influencing the financial performance in manufacturing companies in Kiambu County and Nairobi County which were quantitative. This research design involves gathering data that describes events and then organizes, tabulates, depicts, and describes the data collected by use of percentages, ratios and other qualitative methods (Mugenda & Mugenda, 2003). The main reason of choosing this design was to help establish a deeper clarity on the various matters seen as contributory factors to this Research. This research design is adopted because the data involved is qualitative, identified and the research problem is not well defined (Krishnaswami & Satyaprasad, 2010).

3.3 Target Population

A population includes all the entities belonging to a certain parameter. A target population is generally that population to which a researcher wants to generalize the results of a study (Mugenda & Mugenda, 2003). A population also refers to an entire group of individual's events or objects having common observable characteristics. The target population consisted of Sixty one animal feeds manufacturing companies in Kiambu County and Nairobi County. The list of animal

feeds manufacturers in Kenya for the year 2016 was prepared when most of the companies had paid the subscription on time and they were listed on time. The organisation of animal feeds manufactures in Kenya has been publishing the AKEFEMA news magazine every year and some magazines were found in the organisation website and they were free to download. The AKEFEMA and KNBS have been providing the important information of animal feeds manufactures to the farmers and also to other parties like suppliers, competitors, government and other interested parties. The importance of AKEFEMA and KNBS to this study was to provide the data they collect from animal feeds manufactures with regard to their performance. The organisation collects financial ratios of each company upon renewal of subscription every year (Akefema, 2016).

3.4 Sampling and sampling procedure

A census is used to conduct this study. A census is where a population is closely surveyed and everything is studied and is mostly applicable where the data is easily surveyed. This method is used because the population is small, it is cost effective and efficient to use and accurate results can be obtained. This is aimed at achieving a comprehensive coverage and gives much accurate results.(Harper, 1991). The management have access to all the records and information and were highly educated and experienced but the other lower levels of the firm do not require highly educated personnel in the lower levels. The management of the organisation is more knowledgeable than any other employees in the organisation and their information can be relied upon and any published financial information from the organisation can be relied upon (Harper, 1991)

The Association of Animal feeds manufacturers AKEFEMA have provided a list of all registered animal feeds manufacturers in Kenya. The manufacturers for Kiambu County and

Nairobi County were listed and they were 61. The companies listed had to pay for the subscription yearly to be active members. The list and the information of registered companies can be relied upon (Akefema, 2016). The ministry of agriculture also provides a detailed information of animal feeds manufactures upon request and also upon confirmation for the use of the data.

Company	Registered companies
Animal feeds manufacturers in Kiambu county as provided in Appendix 4	23
Animal feeds manufacturers in Nairobi County as provided in Appendix 4	38
Totals	61

Figure 2: Sampling frame

Source: (Akefema, 2016).

The sample frame include all the items in the population because census method is conducted for the purpose of this study. The information and reports from the secondary sources can be relied upon because they are published and have information of different manufacturing companies and they are available online and also hard copies.

3.5 Data Collection

Secondary data was obtained from the following sources which include; the journals, financial statements, Company's websites, financial information from the website, books and any other relevant materials for the purpose of this study which helped the researcher to gather data

relating to the factors influencing the financial performance of animal feeds manufacturing organisation in Kiambu County and Nairobi County.

Secondary sources is applicable in situations where the research data can be easily obtained from other published statements which can be relied upon and where the author is stated and sources acknowledged and the year of publication is stated. Secondary data is easy and cheap to get and where the primary sources were expensive to use the secondary data can be used. The financial and educational institutions helps in provision of the secondary data in the libraries and also in the website.(Mugenda & Mugenda, 2003)

3.5.1 Data collection procedures

The data collection procedures include the secondary sources which were published and available in soft copy or hard copy and the author is duly acknowledged and the source is stated from all the Sixty one companies of animal feeds manufacturers in Kiambu County and Nairobi County. This has helped in gathering data from each company registered and using the data collected to form a basis of the research. The purpose of the research was at all times communicated to the secondary sources parties and any other person during the research process and the provision of the letters for the confirmation from KCA University duly signed and free for any confirmation. The authority letter from KCA University and the Student identity card were made available at all times both in soft copy and hard copy in order to collect secondary data.

3.6 Data analysis

The data is collected through secondary sources and upon completion of the data collection process, the data is evaluated and analysed using computer software that is STATA. The panel data analysis is suitable for this study because the data is collected from several firms over different

time period. The panel data analysis is where the data is collected over a different period in time in different firms or organisations to make a conclusion. The STATA can provide accurate results which can be relied upon to make future financial performance decisions. The data is presented in the form of tables, graphs and figures to analyse data. This has helped to establish the relationship between the dependent and the independent variables. The data is analysed through panel data analysis descriptive statistics and inferential statistics which is through regression analysis

3.7 Measurement of Variables

The financial performance is the dependent variable and is measured using different ratios but the ratio which is appropriate for this variable is the earnings ratio. The census method is used to collect the secondary data from the 61 Animal feeds manufacturing companies which are registered. The panel data analysis and STATA software were used to get the results for the interpretation purposes. The Manufacturing expenses is measured using Total expenses ratio. The loan management is measured using the Debt equity ratio. The working capital is measured through current ratio. The demand is measured through inventory turnover ratio.

Table 1: Measurement of variables

Variables	Abbreviations	Operationalization's
Financial performance	FP	Earnings before Interest and tax Divided by Total assets
Manufacturing expenses	ME	Manufacturing expenses which is Total expenses divided by Total sales

Loan management	Lm	Total debt ratio to assets ratio which is Total debt divided by Total assets
Working capital	We	Current ratio which is current assets divided by current liabilities
Demand	D	Inventory turnover which is Cost of goods sold divided by Average debtors

Table 2: Indicators of Variables and Analysis

Variables	Indicators	Type of analysis
Financial performance	Earnings ratio	Panel data analysis
Manufacturing expenses	Total expenses ratio	Panel data analysis
Loan management	Debt to Asset ratio	Panel data analysis
Working capital	Current assets ratio	Panel data analysis
Demand	Inventory turnover	Panel data analysis

Linear Regression equation

$$Y_i = \beta_0 + \beta_1 Me + \beta_2 Lm + \beta_3 Wc + \beta_4 D + \varepsilon$$

Let Y_i = Financial performance = A

β_0 = Constants

β_1 to β_3 = coefficients

Let Me = Manufacturing expenses = B

Let Lm = Loan management = C

Let Wc = Working capital = D

Let D = Demand = E

ε = Error term

CHAPTER FOUR:

FINDINGS AND DISCUSSIONS

4.0 Introduction

The chapter seeks to explain the findings and discussions which were found using the statistical models for econometrics. The STATA software was used to analyse the data and the findings were reported using figures, tables, graphs and interpretations were also provided in this study. The correct data was reported to ensure that the correct results were obtained which did not have errors and were regarded as accurate and appropriate for the purpose of this study. The results have also been tested for consistency purposes because the data set is not changing the same results can be obtained at different times. The results were then compared to the previous studies which were conducted by other scholars. The discussion also include a comparison of the theories applied in this study.

4.1 Panel data analysis

The panel data analysis uses certain tests which should be followed in order to produce the output and interpreted the results. The test shows the data met the specifications test of the panel data analysis and the data was arranged in good order for it meet the above test and the data is for the year 2012 to 2016 and is strongly balanced. The balanced panel data analysis also means that all the entities or companies in this case have the measurements in values in all time periods.

4.2 Exploratory data analysis

The exploratory data analysis involves within firms and between firm analysis and the following tests were carried out through the use of growth plots for fixed effects within firms and the overlain plots for the effects between firms.

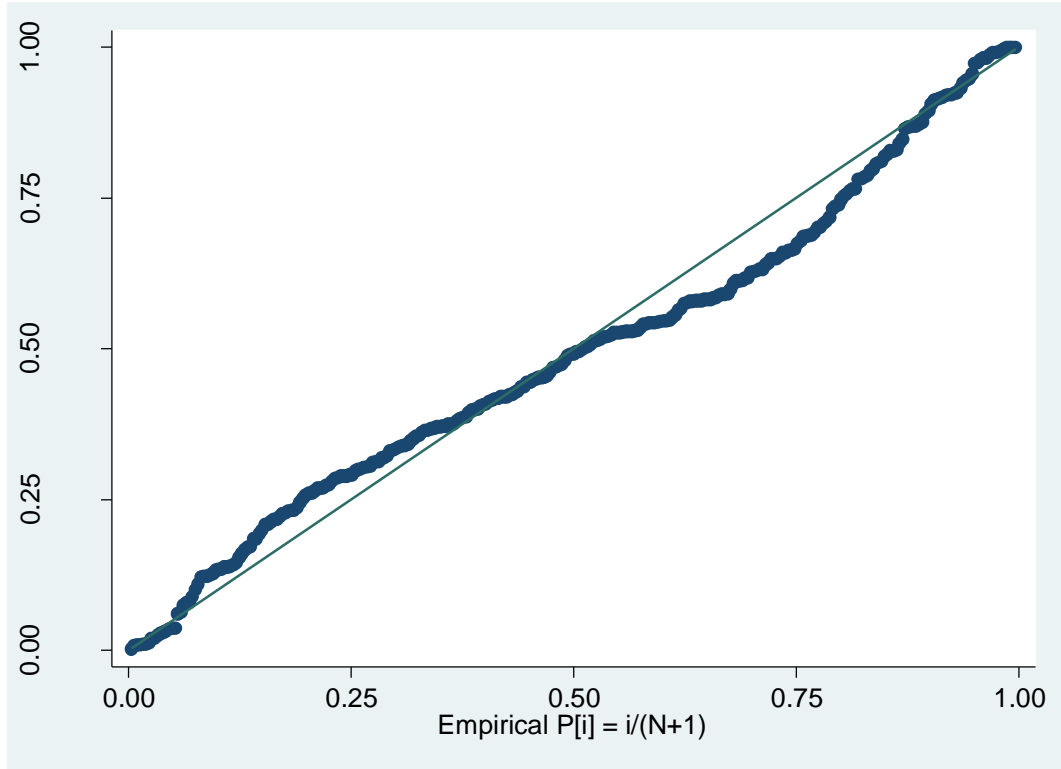


Figure 3: Normality test Residual graph

Source: Author (2017)

The standardized normal probability plot checks for non-normality in the middle range of the residuals. The graph shows the results were slightly off the line but looks ok. There is a linear relationship between the independent variables and the dependent variable.

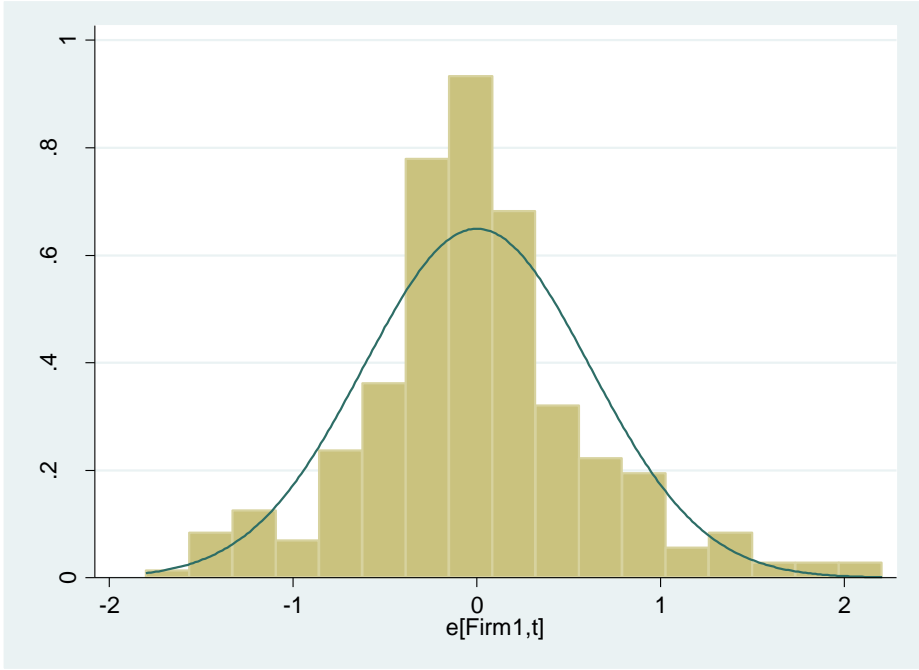


Figure 4: Histo residual normal graph

Source: Author (2017)

The Histo residual normal graph shows there is normality of the results and the data is normally distributed. There is a bell shaped curve which shows the results were normally and statistically distributed but there were other tests to be carried out to prove the statistical tests.

The summary graph for the companies include the following results obtained.

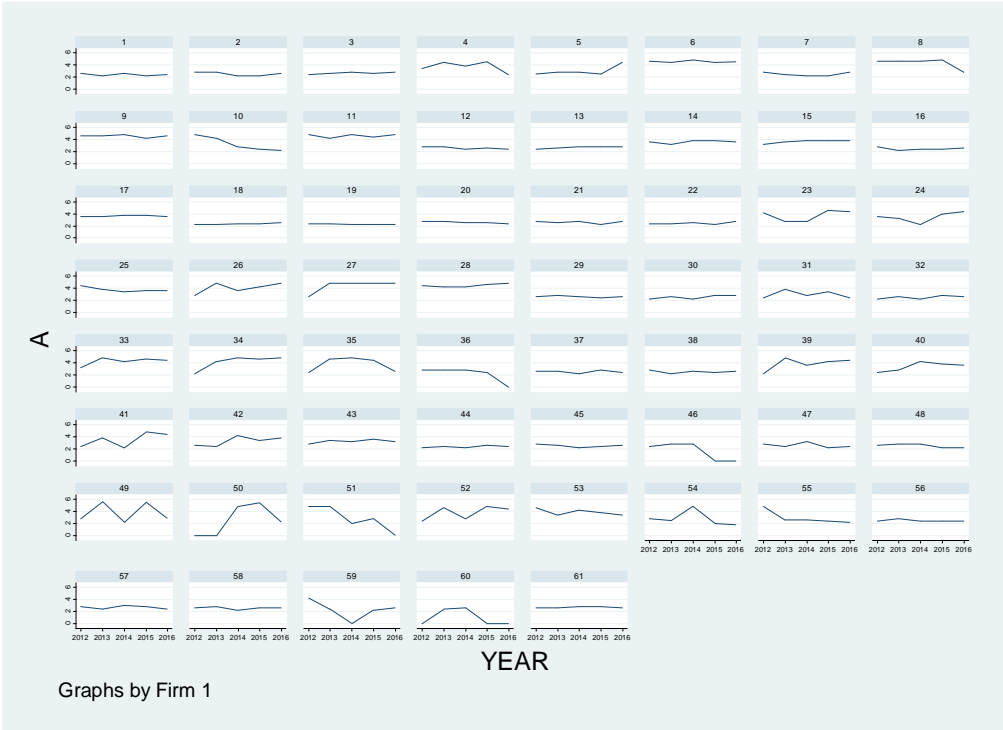


Figure 5: Graphical presentation of firms

Source: Author (2017)

The line of best fit for most companies shows it is horizontally and shows there is a relationship between the dependent variable and the independent variables.

The overlain plot graph include the following

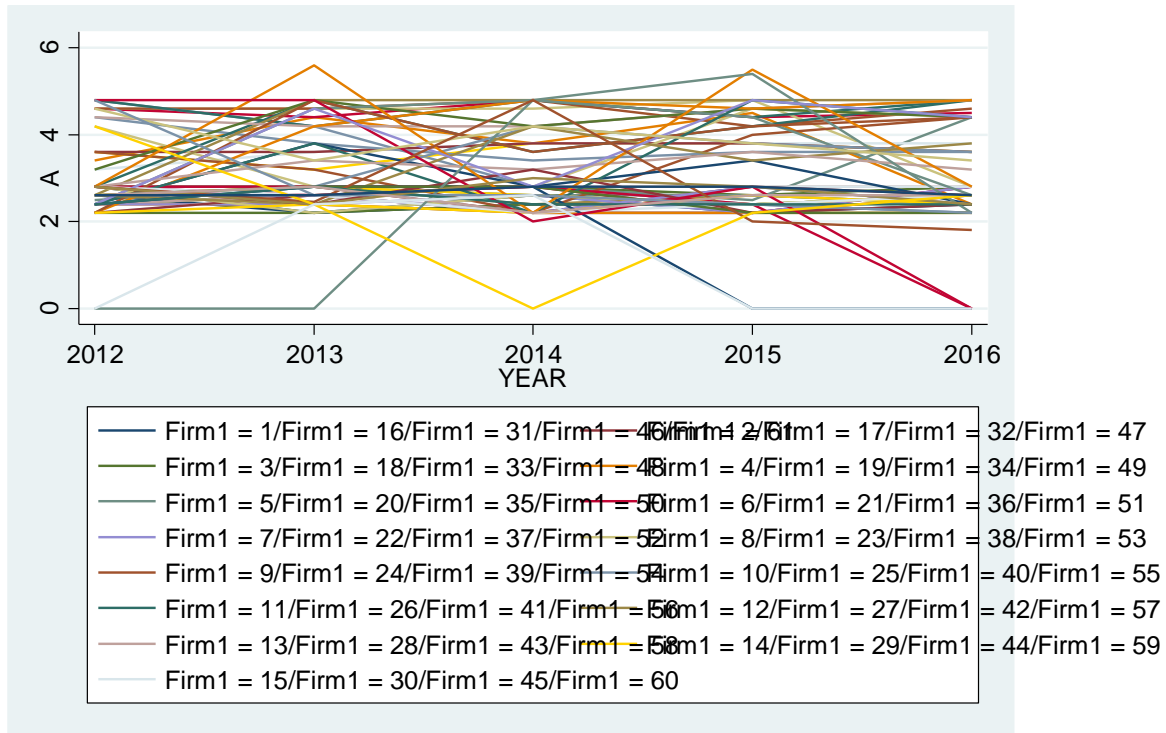


Figure 6: Overlain plot graph

The overlain plot graph shows that the leverage did not change much with time for most firms, however in some few cases leverage appeared to change significantly with time. The overlain plot graph shows the effects for different firms in the industry. The line of best fit for most companies in the overlain plot graph shows it is horizontally and shows there is a relationship between the dependent variable and the independent variables.

4.2.1 Correlation matrix for the study variables

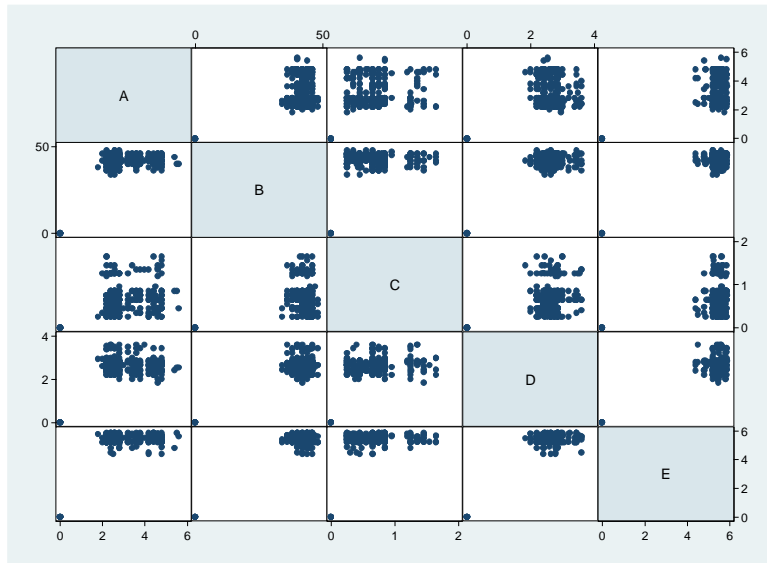


Figure 7: Graph matrix

The variables were concentrated around a specific area and not randomly distributed meaning that the variables were significantly related.

4.2.2 Specification test

The specification test for the purpose of this study which was conducted include the multicollinearity test and the results obtained are included in the following table

Table 3: VIF Table

Variable	VIF	1/VIF
E	5.97	0.167541
B	5.37	0.186337
D	3.03	0.329756
C	1.17	0.852197
Mean VIF	3.89	

Source: Author (2017)

The VIF is variance inflation factor and the mean VIF is less than 5 because it is 3.89 meaning that there is no presence of multicollineality of the variables and the correlation coefficient between the variables in absolute form were less than 0.8 indicating there was no multicollinearity. The study therefore concluded that the independent variables were reliable in estimating the model (Gujarati & Sangeetha, 2007).

Unit root stationarity test

The unit root is another specification test and the following results were obtained for the purpose of this study. The test for unit root stationarity test include the following two tests

Table 4: Levin lin Chu unit root test

```
. xtunitroot llc A
```

Levin-Lin-Chu unit-root test for A

Ho: Panels contain unit roots	Number of panels =	61
Ha: Panels are stationary	Number of periods =	5

AR parameter: Common	Asymptotics: N/T -> 0
Panel means: Included	
Time trend: Not included	

ADF regressions: 1 lag
 LR variance: Bartlett kernel, 5.00 lags average (chosen by LLC)

	Statistic	p-value
Unadjusted t	13.8564	
Adjusted t*	24.0851	1.0000

Source: Author (2017)

There is presence of unit roots and panel data is not stationary since the p-value is greater than 0.05 and therefore accept the null hypothesis and reject the alternate hypothesis. There is presence of unit root so use the first differences.

Table 5: Harris-Tzavalis unit root test

```
. xtunitroot ht A
```

Harris-Tzavalis unit-root test for A

Ho: Panels contain unit roots	Number of panels =	61
Ha: Panels are stationary	Number of periods =	5
AR parameter: Common	Asymptotics: N -> Infinity	
Panel means: Included	T Fixed	
Time trend: Not included		

	Statistic	z	p-value
rho	-0.0275	-8.4533	0.0000

Source: Author (2017)

There is presence of unit roots and panel data is stationary since the p-value is less than 0.05 and therefore reject the null hypothesis and accept the alternate hypothesis. The 5% critical value was applied for the stationarity test and revealed that all the variables were stationary and have unit root. If there is unit root use the first differences.

4.2.3 Descriptive statistics

The descriptive statistics for the purpose of this study shows the following results.

Table 6: Statistics table 1

```
. xtsum A B C D E
```

Variable		Mean	Std. Dev.	Min	Max	Observations
A	overall	3.07918	1.067462	0	5.6	N = 305
	between		.782914	1	4.6	n = 61
	within		.7311536	.1991803	5.99918	T = 5
B	overall	41.20328	8.132415	0	48	N = 305
	between		4.912093	18	46.2	n = 61
	within		6.505767	5.603279	69.20328	T = 5
C	overall	.6705574	.3340895	0	1.65	N = 305
	between		.2411202	.29	1.37	n = 61
	within		.2328988	.0605574	1.702557	T = 5
D	overall	2.572328	.5719307	0	3.6	N = 305
	between		.3654514	1.23	3.36	n = 61
	within		.4419359	.4123279	4.842328	T = 5
E	overall	5.264361	1.007598	0	5.87	N = 305
	between		.6174852	2.24	5.65	n = 61
	within		.7993643	.8543607	8.824361	T = 5

Source: Author (2017)

The total number of observations is 305 because there were 61 units or companies and 5 time period .The overall mean is 3.07 and the standard deviation is 1.067.The overall statistics were ordinary statistics which were based on 305 observations and between statistics were calculated on basis summary statistics of 61 companies regardless of time period while within statistics were summary statistics of 5 time period regardless of the company. The table indicate that on average there is 30.7% of the total earnings of the firms

Table 7: Statistics table 2

Source	SS	df	MS			
Model	91.3665478	4	22.841637	Number of obs =	305	
Residual	255.033747	300	.850112491	F(4, 300) =	26.87	
Total	346.400295	304	1.13947465	Prob > F =	0.0000	
				R-squared =	0.2638	
				Adj R-squared =	0.2539	
				Root MSE =	.92202	

A	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
B	.020077	.0150637	1.33	0.184	-.009567	.049721
C	.1362313	.1714623	0.79	0.428	-.2011898	.4736524
D	-.1768777	.1610133	-1.10	0.273	-.4937363	.139981
E	.4555716	.1282193	3.55	0.000	.2032484	.7078947
_cons	.2172848	.2854659	0.76	0.447	-.3444844	.779054

Source: Author (2017)

The source stands for the total variance for the independent variables and is explained by the model while the residual stands for the independent variable which is not explained or the error term. The ss were sum of the squares associated with the sources which include variance, total, model and residual. The df were the degrees of freedom associated with the sources of the variance. The total variance has N-1 degrees of freedom. The residual degrees of freedom is the df total minus df model. The ms were the mean squares, the sum of squares divided by their respective df. The number of obs is the number of observations used in regression analysis. The F is the F statistic and is the mean square model divided by the mean square residual. The P>f is the p value associated with the f statistic above it is used in testing the null hypothesis that all the model coefficient were 0 (Gujarati & Sangeetha, 2007).

R squared is the proportion of the variance in the dependent variable which can be explained by the independent variable. This is the overall measure of the strength of the association and doesn't reflect the relationship between the independent variable and the dependent variable. Adj r squared

is the adjustment of r squared that penalizes the addition of extraneous predictors in the model. Root mse is the standard deviation of the error term and is the square root of the mean squared residual or error (Gujarati & Sangeetha, 2007)

The coefficient these were values for the regression equation for predicting the dependent variable from the independent variables for every unit increase in B there is an 0.336 unit increase in the dependent variable A predicted holding all other variables constant. For every increase in C we expect a unit increase in A. The Std err is the standard error which is associated with the coefficients .The t statistics used in testing whether a given coefficient is significantly different from zero. The 95% confidence interval were for the coefficients. The confidence intervals were related to the p values such that the coefficient was not statistically significant at $\alpha=0.5$ if the 95% confidence interval includes zero (Gujarati & Sangeetha, 2007)

4.3 Diagnostics analysis

4.3.1 Hausman test

The hausman test was used for the diagnostic analysis and include the following results which were obtained.

Table 8: Hausman fixed random table

```
. hausman fixed random
```

	Coefficients		(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
	(b) fixed	(B) random		
B	.0074636	.0111709	-.0037073	.0039015
C	.1094373	.1070163	.0024209	.0783967
D	.192415	.0784393	.1139757	.0660452
E	.3607993	.3923364	-.0315371	.0323494

b = consistent under Ho and Ha; obtained from xtreg
 B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

```
chi2(4) = (b-B)' [(V_b-V_B)^(-1)] (b-B)
          = 3.25
Prob>chi2 = 0.5167
```

Source: Author (2017)

The above were the Hausman test which when interpreted shows that there is high correlation of the dependent variable A to the independent variables B,C,D,E if this value of prob>chi2=0.5167 and if prob is <0.05, reject Ho meaning use fixed effect model and if it is >0.05 accept the Ho and use random effect model which is in this case as in the results obtained above.

4.3.2 Heteroskedasticity test

Table 9: Test for Heteroskedasticity

```
Modified Wald test for groupwise heteroskedasticity
in fixed effect regression model
```

```
H0: sigma(i)^2 = sigma^2 for all i
```

```
chi2 (61) = 1.5e+06
Prob>chi2 = 0.0000
```


Source: Author (2017)

There is presence of heteroskedasticity since the prob is 0.0000 meaning that null is homoscedasticity or constant variance so we reject null and accept the alternate hypothesis since there is presence of heteroskedasticity.

4.4 Other tests

4.4.1 Shapiro wilk w test

Table 10: Shapiro wilk w test

```
. swilk A B C D E
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
A	305	0.91752	17.831	6.768	0.00000
B	305	0.50419	107.191	10.982	0.00000
C	305	0.95004	10.801	5.590	0.00000
D	305	0.70303	64.203	9.778	0.00000
E	305	0.39723	130.316	11.441	0.00000

```
. swilk residual
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
residual	305	0.96967	6.558	4.418	0.00000

Source: Author (2017)

The following further test for the residual was also conducted and the results interpretations includes the following. Interpretation is that there is non normality of residuals therefore the null hypothesis of normal data is accepted since the pvalue is 0.00 and is less than 0.05 which is the

recommended for the comparison purposes. The normality test used is Shapiro wilk w test for normal data. The p value is based on the assumption that the distribution is normal.

Ho1: The null hypothesis of normal data

Ho2: The alternate hypothesis of normal data

4.4.2 Breusch and pagan lagrangian multiplier test

Table 11: Breusch and pagan lagrangian multiplier test

```
. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

A[Firm1,t] = Xb + u[Firm1] + e[Firm1,t]

Estimated results:

```

	Var	sd = sqrt(Var)
A	1.139475	1.067462
e	.4565873	.6757124
u	.4101978	.6404669

```

Test:  Var(u) = 0
       chibar2(01) = 124.24
       Prob > chibar2 = 0.0000

```

There is no deviation between the sample mean and the population mean that is shown from the

Var (u)= 0

4.5 Fitting the linear equation model

Table 12: Testing for fixed time effect model

```
. xtreg A B C D E, fe

Fixed-effects (within) regression      Number of obs   =       305
Group variable: Firm1                 Number of groups =        61

R-sq:  within = 0.3257                 Obs per group:  min =         5
      between = 0.1837                   avg =           5.0
      overall  = 0.2502                   max =           5

corr(u_i, Xb) = 0.0098                  F(4,240)        =       28.98
                                          Prob > F        =       0.0000
```

A	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
B	.0074636	.0132491	0.56	0.574	-.0186357	.0335629
C	.1094373	.1842743	0.59	0.553	-.2535643	.4724389
D	.192415	.166557	1.16	0.249	-.1356854	.5205153
E	.3607993	.1128938	3.20	0.002	.1384101	.5831884
_cons	.303939	.2621496	1.16	0.247	-.2124688	.8203469
sigma_u	.70745651					
sigma_e	.67571245					
rho	.52293816	(fraction of variance due to u_i)				

```
F test that all u_i=0:      F(60, 240) =      5.31      Prob > F = 0.0000
```

Testparm test

Table 13: Testparm table

```
. testparm i. YEAR

( 1) 2013.YEAR = 0
( 2) 2014.YEAR = 0
( 3) 2015.YEAR = 0
( 4) 2016.YEAR = 0

F( 4, 236) = 1.44
Prob > F = 0.2224
```

The F value in the diagram above is greater than 0.05 since it is 0.2224 means there are no time fixed effects in the model. The t values test the hypothesis that each coefficient is different from 0. To reject this the t value has to be higher than 1.96 (for a 95% confidence interval). To accept this the t value in this case is 1.16 and therefore we accept the fixed effect regression analysis method. The variable has a significant influence on the dependent variable A. The higher the t value the higher the relevance of the variable.

The linear regression equation using the fixed time effect model include the following

$$Y_i = 0.3039 + \beta_1 0.0074 + \beta_2 0.1094 + \beta_3 0.1924 + \beta_4 0.3607 + \varepsilon$$

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The chapter presents the summary of the findings, conclusions and recommendations. The conclusions provided in this chapter were in regard to the findings that were arrived after analysis of the data was done using the STATA software which provide accurate results for panel data analysis. The STATA software was used to analyse the data and the findings were reported using figures, tables and interpretations were also provided. The correct data was reported to ensure that the correct results were obtained which did not have errors. The results have also been tested for consistency purposes because the data set is not changing the same results can be obtained at different times. The results were then compared to the previous studies which were conducted by other scholars. The discussion also include a comparison of the theories applied in the study.

5.1 Summary of findings

The summary of the findings include the summary of results and tests which were conducted using STATA software and were free from errors and manipulations and portrays the true and fair view of the organisation status. The Histo residual normal graph shows there is normality of the results and the data is normally distributed. There is a bell shaped curve which shows the results were normally and statistically distributed according to figure 5 but there were other tests to be carried out to prove the statistical tests. The results of the regression analysis using the STATA shows there is linear relationship between the variables and it's statistically significant.

5.1.1. Relationship between manufacturing expenses and financial performance

The manufacturing expenses is measured by total expenses ratio which is given by the total expenses divided by total sales while the financial performance is measured by the earnings ratio and is given by earnings before interest and tax divided by total assets. The findings from this study indicated that the p value >0.05 because it is 0.574 according to Table 15 meaning that there is no significant relationship between the manufacturing expenses and the financial performance. The financial performance is not affected by the changes of the manufacturing expenses in the animal feeds manufacturing companies in both Kiambu and Nairobi counties. The manufacturing expenses ratio is given by total expenses divided by total sales. The financial performance is given by Earnings before Interest over tax Divided by Total assets.

5.1.2. Relationship between loan management and financial performance

The loan management is measured by debt to assets ratio which is given by total debt divided by total assets. The findings from this study indicated that the pvalue >0.05 because it is 0.553 according to Table 15 meaning that there is no significant relationship between the loan management and the financial performance. The financial performance is not affected by the changes of the loan management in the animal feeds manufacturing companies in both Kiambu and Nairobi counties. Total debt ratio to assets ratio is given by Total debt divided by Total assets.

5.1.3. Relationship between working capital and financial performance

The working capital is measured by current ratio which is given by current assets divided by current liabilities. The findings from this study indicated that the pvalue is >0.05 because it is 0.249 according to Table15 meaning that there is no significant relationship between the working capital and the financial performance. The financial performance is not affected by the changes of the

working capital in the animal feeds manufacturing companies in both Kiambu and Nairobi counties. Current ratio which is given by current assets divided by current liabilities.

5.1.4. Relationship between demand and financial performance

The Demand is measured by inventory turnover which is given by cost of goods sold divided by average debtors. The findings from this study indicated that the pvalue is <0.05 because it is 0.002 meaning that there is a significant relationship between the demand and the financial performance according to Table 15. The financial performance is affected by the changes of the demand in the animal feeds manufacturing companies in both Kiambu and Nairobi counties. Inventory turnover which shows the demand is given by Cost of goods sold divided by Average debtors. The inventory turnover keeps on changing since during the dry season there is scarcity of animal feeds and during the rainy season there is plenty of the animal feeds raw materials and prices tend to change. The stakeholder's theory, value and the firm performance about the capital structure which does not affect the value of the firm applies in this study because the demand of animal feeds is not a capital structure decision. The capital structure decisions involve whether to finance using equity or through debt capital.

5.2. Conclusion

The results of the study shows that the P value is <0.05 meaning that there is significant relationship between the Dependent variable and Independent variables for one independent variable the demand for the animal feeds but the others are greater than 0.05. The financial performance is influenced by the demand of animal feeds and is not influenced by following variables which include manufacturing expenses, loan management, and working capital.

5.3 Recommendations

The study highlighted the variable which influence while others does not influence the financial performance of the animal feeds manufacturing companies in both Kiambu and Nairobi counties. There is significant relationship between the dependent variable and Independent variable since the p value was less than 0.05 therefore there is need to conduct further study.

5.4 Areas for further research

There is need to conduct further research so that all the factors influencing the financial performance of animal feeds manufacturing companies can be known with great certainty, accuracy and prevent future losses. The future study will provide the basis of improvement for the companies which were not performing well and open the new marketing areas and the methods.

5.5 Limitations

The study was conducted using secondary data for only 61 Animal feeds manufacturing companies which were registered by AKEFEMA but there are other Animal feeds which are not registered by the Association of animal feeds manufactures. The study was only limited to the companies which are registered by AKEFEMA and Kenya National Bureau of statistics (KNBS). The census method was used for the purpose of getting secondary data but in case there are many companies census method will not be appropriate.

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APPENDICES

APPENDIX 1

LETTER OF SUPPORT/INTRODUCTION

Timothy Njonjo Nyambura

KCA University,

P.O Box, 56808-00200

NAIROBI.

To whom it may concern,

Dear Sir/Madam,

RE: REQUEST FOR RESEARCH INFORMATION

I am a student at KCA University currently undertaking a study on the Factors influencing the financial performance of Animal feeds manufacturing companies in selected counties. I would like to request your assistance in obtaining secondary data related to this study. Kindly be assured that the information provided is treated confidentially and professionally for the purpose of this study.

Thank you in advance.

Yours faithfully,

Timothy Njonjo Nyambura

MSc/15/05628

APPENDIX 2

BUDGET

PARTICULARS

AMOUNT (KSHS)

Photocopy papers(one Rim)	500.00
Pens pencils and files	500.00
Telephone Expenses	1,000.00
Transport for the Researcher to get secondary data	10,000.00
Other Expenditures	3,000.00
Total budgeted cost of the Research	<u>15,000.00</u>

APPENDIX 3

LIST OF ANIMAL FEEDS MANUFACTURERS IN KIAMBU AND NAIROBI COUNTIES.

Thika Region

1. Chania feeds
2. Jubilee feed industries ltd
3. Njuca feeds ltd
4. May feeds ltd
5. Pwani feeds ltd
6. Ohami millers ltd
7. Trust feeds ltd
8. Legorn feeds international
9. Afri vet ltd
10. Bedson E.A. ltd
11. Thika farmers group ltd
12. Aroma Suppliers ltd
13. Treasure industries

Limuru and its Environs

1. Tosha products k ltd
2. Jupiter manufacturer's ltd
3. Ngenia feeds ltd
4. Sifa feeds ltd
5. Turbo feeds ltd
6. Tuvune feeds Kikuyu
7. Limuru dairy farmer's co-op ltd
8. Masters manufacturers k ltd
9. Jacaranda feeds ltd
10. Wakulima dairy feeds co./Bora feeds

Nairobi Region

1. Economy Farm products
2. Hemco feeds Kariobangi
3. Pembe feeds Industrial area
4. Unga farm care (E.A)
5. Nutrimix ltd
6. Pioneer feeds ltd

7. Tarime supplier's ltd
8. Sirari feeds
9. ABS TCM ltd
10. Alltech E.A.ltd
11. Dandora millers
12. Eagle Vet k ltd
13. Joeliz bone meal ltd
14. Kamararts ltd
15. Kengrow ltd
16. Modern ways supplier's ltd
17. Nairobi feed manufacturers ltd
18. S rocky general contractor's ltd
19. Tam feeds ltd
20. Twiga chemical industries ltd
21. Vet care k ltd
22. Carevet animal feed ltd
23. Twin brothers

24. Zagros singapo ltd
 25. Transken links ltd
 26. Novas International
 27. Ultravetis E.A.
 28. NUTREX NvNutrexNv
 29. Adc feed mills
 30. Belfast miller's ltd
 31. Mount meru millers
 32. Cooper K Brands Ltd
 33. Afri venture k ltd Medi Plaza
 34. Evonik industries A.G
 35. Lima feeds
 36. Millet Company Ltd
 37. Josun Animal feeds ltd
 38. Hika Animal feeds ltd
- Totals =61

APPENDIX 4

SCHEDULE OF WORK PLAN

	Week 1	Week 2	Week 3	Week 4
Seek the permission to collect the secondary data				
Collect the secondary Data				
Summarize the secondary data				
Analyze the data				